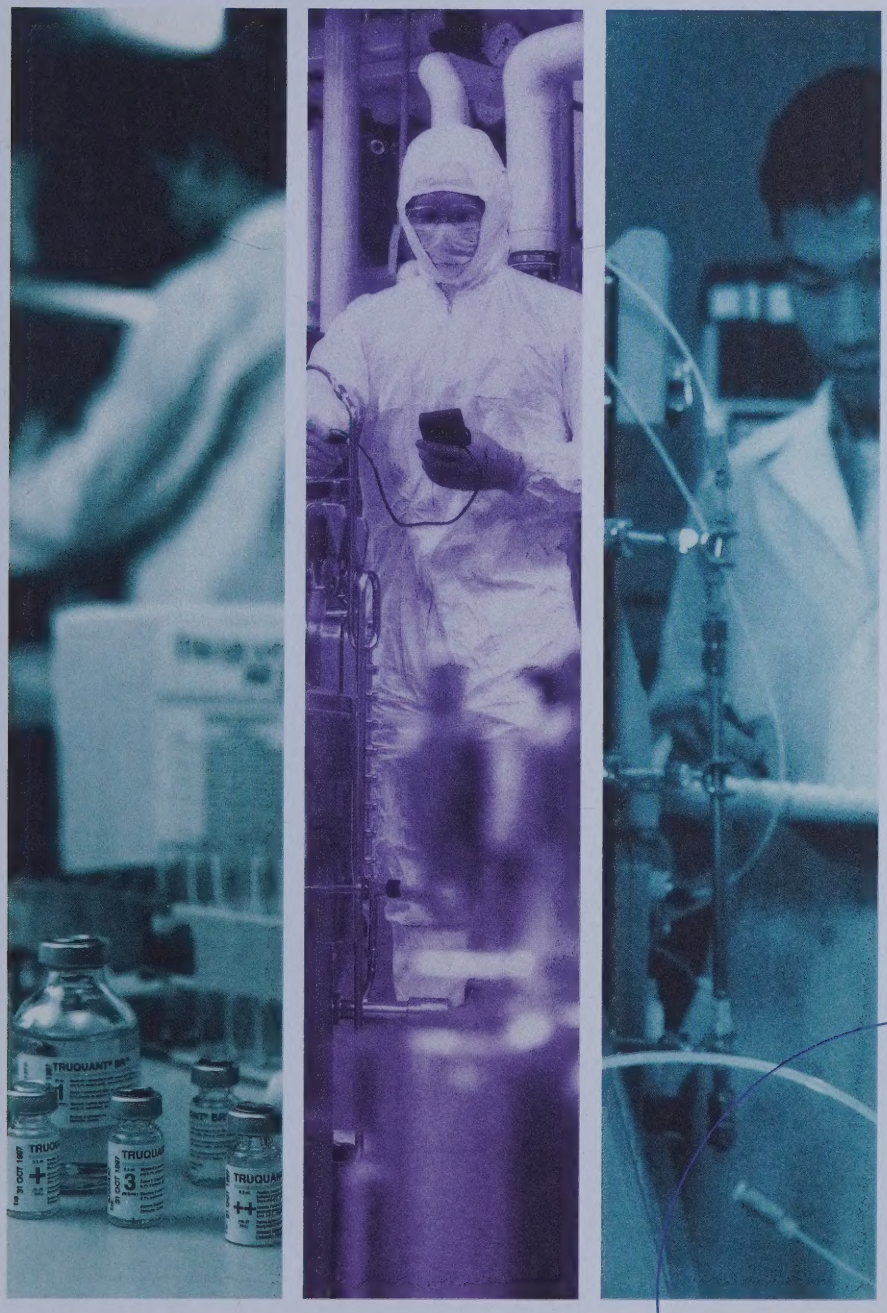
AR54

BIOMIRA INC.



annual report 1996

BIOMIRA: Solid science, prudent business

Then and Now

When Edmonton-based Biomira Inc. was established in 1985, it joined a select group of Canadian companies active in the relatively new field of biotechnology. Although new to the business community, Biomira had expertise in organic chemistry, immunology and was solidly grounded with some 15 years of prior research at the University of Alberta. As a result, Biomira joined the industry with impressive scientific credentials, already well advanced in its proprietary knowledge of immune system manipulation and its potential in the fight against cancer.

In the ensuing years, Biomira has matched its reputation for good science with management expertise in all fields of product and clinical development, regulatory approval and commercialization. Since the early 1990s, the company has refined its focus to concentrate on the field of cancer management. By 1996, with *in vitro* diagnostic products already in commercial production and imaging and therapeutic products in the late stages of clinical development, Biomira had demonstrated its ability to survive and thrive in a highly competitive field. By one estimate, some 100 companies had more than 200 cancer drugs in development in 1996.

Capitalization

Biomira is Canada's fifth largest biotechnology company in terms of market capitalization. At year-end 1996, there were 44.3 million common shares outstanding. The company is listed on the Toronto and Montreal Stock Exchanges (BRA) and on Nasdaq in the United States (BIOMF).

People

The largest biotechnology company in Edmonton, Biomira employs about 175 people in its corporate headquarters and laboratories in the Edmonton Research Park. The company maintains links with the University of Alberta and with Edmonton's Cross Cancer Institute, one of several internationally recognized research and treatment centres which collaborate in clinical trials and other aspects of research and development.

Another 75 people work in Biomira's two wholly owned subsidiaries. Biomira Diagnostics Inc. of Toronto manufactures and distributes diagnostic test kits, including the TRUQUANT® tumour marker tests. Biomira USA Inc. of Cranbury, New Jersey has expanded the company's US presence through its complementary scientific strengths and ties to US research centres.

Tomorrow

Having evolved from a predominately research and development organization to a fully integrated business enterprise with excellent market and partnership prospects, Biomira is well positioned to reward strong investor confidence by continuing to find and develop health care solutions of benefit to cancer patients around the world.

Annual General Meeting

The annual meeting of shareholders will be held at the Sheraton Grande Edmonton Hotel 10235 - 101 Street, Edmonton, Alberta, Canada at 4:00 p.m. on Wednesday, May 21, 1997. Shareholders of record on April 4, 1997 are entitled to notice of and to vote at the annual meeting.

Year of Achievements
In 1996, Biomira:

Received FDA approval to market TRUQUANT® BR™ RIA — the first blood test for detection of recurrent breast cancer to be marketed in the US.

Filed Canadian New Drug Submission for Tru-Scint® AD™ imaging kit for breast and ovarian cancer.

Granted Neoprobe Corporation of Ohio exclusive rights to use monoclonal antibody MAb–170 in breast conserving surgery technology in exchange for an upfront fee, milestone payments and royalties.

Presented encouraging final Phase II data on use of THERATOPE® vaccine in patients with breast cancer.

Received a total of $42.5 million through warrant transactions and final exercise of warrants.

Completed a $36 million common share offering.

Financial Highlights

(Canadian dollars, in thousands except per share amounts)	**1996**	1995	1994
Operations			
Revenue	**9,421**	7,695	6,948
Research and Development	**16,217**	15,842	23,104
Loss from Continuing Operations	**(21,822)**	(21,411)	(28,075)
Gain on Sale from Discontinued Operations	**–**	–	11,064
Net Loss	**(21,822)**	(21,411)	(17,011)
Common Share Data			
Common Shares Outstanding			
• weighted average	**37,955**	27,450	22,197
• year end position	**44,316**	33,365	22,523
Loss from Continuing Operations Per Share	**(0.57)**	(0.78)	(1.27)
Net Loss Per Share	**(0.57)**	(0.78)	(0.77)
Financial Position			
Cash and Short Term Investments	**94,402**	36,791	28,050
Working Capital	**96,039**	37,646	27,731
Total Assets	**106,599**	53,096	38,600
Shareholders' Equity	**102,553**	49,611	34,646

Dear Fellow Shareholders

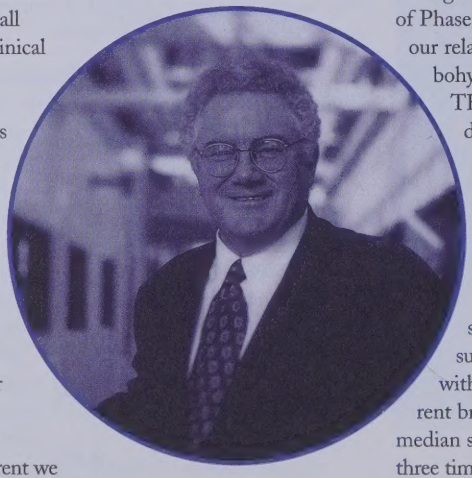
Events of 1996 positioned Biomira as a fast-maturing contender in the global biotechnology arena, one with demonstrated technical and management expertise in every phase of product development and commercialization.

By concentrating on the development of products for the diagnosis and treatment of cancer, we were able to reach our immediate goals in all areas of activity, from clinical trials and regulatory approvals to securing a solid financial base. This highly focused approach also moved us steadily closer to our longer-term goals of commercialization and world registration of a full spectrum of testing, imaging and therapeutic products for cancer management.

By year-end it was apparent we were well on our way.

Testing:
Commercial success

The first step in establishing a market presence occurred in April, when our TRUQUANT® BR™ RIA breast tumour marker test became the first and only product of its kind to be approved for marketing by the US Food and Drug Administration (FDA). The TRUQUANT® BR™ blood test kit, manufactured and distributed by our Toronto-based subsidiary Biomira Diagnostics Inc., proved in extensive clinical trials to be a highly reliable predictor of breast cancer recurrence. By enabling earlier detection and treatment, TRUQUANT® BR™ RIA sets the stage for improved patient survival and quality of life.



Imaging:
On track to market

In May, we filed a Canadian New Drug Submission (NDS) for our Tru-Scint® AD™ imaging agent. Used in conjunction with nuclear medicine imaging techniques, the product has demonstrated its ability to accurately image the presence and location of tumours in patients with recurrent breast cancer or with primary, residual or recurrent ovarian cancer. Significantly, in this regulatory step to product approval, the NDS entered the priority review stream at the Health Protection Branch based on the product's potential for diagnosing serious and life-threatening disease.

Therapy:
Exciting progress

Among the most encouraging developments for Biomira during 1996 were the results of Phase II clinical trials of our relatively non-toxic, carbohydrate-based vaccine, THERATOPE®, designed to stimulate an immune response against the patient's cancer. Test data revealed that use of THERATOPE® vaccine appeared to significantly prolong survival among patients with metastatic or recurrent breast cancer, with median survival rates close to three times that of patients who received conventional therapies.

Not surprisingly, these findings have generated strong interest in both scientific and financial circles. In the high risk, high reward world of biotechnology, the potential of such a leading-edge therapy — from both a health care and investment point of view — is clearly enormous. It's also important to note that while THERATOPE® vaccine remains our flagship product,

Biotechnology industry comes of age
Biomira reduces its losses
Staff
Edmonton
...ra Inc. has reported revenue of $2 million, and a ...of $5.8 million, or 21 cents per share, for the ...nths ended Dec. 31, 1995. ...ame period a year ago, revenue also was $2 mil- ...ss was $7.5 million. "We are pleased with our ...995, moving us closer to bringing our products ...management closer toward commercializa- ...iomira president Dr. Alex McPherson.
both in building new facilities and attracting top talent.
The biggest engine was the Alberta Heritage Foundation for Medical Research, which since 1979 spent $450 million on university-...
politicians and the public for equity involvement in high-tech ventures, there are defenders who say it helped lay the groundwork for what's happening today.
The province's director of biotechnology and pharmaceutical development, Morley Hamilton, says the problem with Chembiomed and other early ventures is they were run largely by academics and bureaucrats.
"They didn't know what they had," Hamilton says. "There was nobody in a position to make decisions who had any idea of what it was to operate an integrated pharmaceutical company."
Since then, Hamilton says, the industry has matured. He points to the involvement of private venture-capital companies such as Al...
Biomira takes in $28.75M from issue
Biomira Inc. of Edmont... receiving $28.75 million fr... issue of shares to Yorkton S... ties Inc.
Yorkton bought 5 milli... mira warrants from Almi... ital Corp., then converte... warrant into a share, issu... Biomira treasury, at a ... $5.75.
Biomira shares ... Wednesday at $7.75 ... Toronto Stock Exchan...
Biomira is an Edm... pany that develops ... tures and markets ... detect, manage and ... ety of cancers.
Breast Cancer Breakthrough
EDMONTON COMPANY
Cancer vaccine tests show promise
The issue: Cancer vaccine.
What's new: Edmonton releases results of clinical trials.
What's next: More clinical trials.
responses was compared to the median survival period of patients with low antibody responses.
Among 15 ovarian-cancer patients with high antibody responses, the median survival was 20.2 months. Among 11 ovarian cancer patients with low antibody responses, the median survival was only 11.7 months.
Similar differences were observed ...een high antibody and low anti-...
ent extended survival."
The trials did not include comparisons to patients who received no therapy or received alternative therapies. However, the results can be comp... to historical survival peri... similar patients.
Biomira's cancer test results positive
RON CHALMERS
Journal Business Writer
Edmonton
Biomira Inc. has announced positive results from Phase 2 clinical ... of its Tru-Scint ...
day at a scientific conference in Crete, Greece.
Tru-Scint uses monoclonal antibodies that travel through the blood stream until they stick to cancer cells. The antibodies are attached to radioisotopes that can be scanned through nuclear imaging techniques, pinpointing the location of the cancer cells.
submission for Tru-Scint AD for the detection of ovarian cancer an... recurrent breast cancer.
The Canadian Health ... Branch has granted ...
Neoprobe gains rights to Biomira breast cancer agent
Biomira has granted Neoprobe an exclusive worldwide licence to its MAb-170 monoclonal antibody in Neoprobe's RIGS technology. Neoprobe plans to carry out a Phase I clinical trial involving up to 45 women undergoing breast-conserving surgery. During surgery, Neoprobe's hand-held gamma probe can be used to identify the sites whe... antibody has accumulated in diseased tissue.
...ra has received an upfront fee and will re... ...tone payments and royalties on commercialisa... ...GS product using MAb-170. The agreement ... ...nded to include ovarian cancer for future m... ...ments. MAb-170 is the monoclonal antibody c... Biomira's Tru-Scint AD kit, which is in Phase I... ...als in the US as an imaging agent to dete... ...reast cancer.
...w on the Market
...nued from previous page
Predicting Cancer Recurrence
...ira Diagnostics, Inc. of Ontario, ...da, has received FDA approval for ...ast tumor marker test for recurrent ...t cancer, the first to be cleared for ...eting in the US. The blood test, ...QUANT® BR™ RIA, can identify ...rence in women previously treated ...ages II and III breast cancer by de... ...g the presence of CA27.29 antigen ... blood. According to the manufac... ...a three-year, prospective, double-... ...clinical trial of 166 clinically dis... ...ree patients found that a positive ...sult accurately predicted ...
Small-caps poised to take off
While larger Canadian firms are considered fully valued, many smaller ones aren't
Biotech Stocks
Biotech takes off
Weekly index close, indexed to 100
TSE Biotechnology, Pharmaceuticals
TSE 300
Licencing d... tests drug's v...
FDA Says Firm Can Sell Breast-Cancer Test in U.S.
Biomira Inc., Edmonton, Alberta, said ... U.S. regulatory approval to ... blood test for recurrence of ... biotechnology concern ... RIA blood test is th...
Biomira reduces its losses
Journal Staff
Edmonton
Biomira Inc. has reported revenue ... $5.8 million, or 21 ...
Biotech financings in first quarter 1996 outpace previous f...
ROMAN FRANKO
Fundamentals show Biomira's still a strong ...

it is just one candidate in Biomira's unique portfolio of synthetic therapeutic vaccines for cancer now in development. In each case, the long, intensive and costly development and approval process is balanced by the excellent return on investment delivered by commercially successful therapeutic products.

Armed with positive Phase II trial results from Canada and the United Kingdom, Biomira is exploring the possibility of accelerated marketing applications for THERATOPE® vaccine. Our experience in successfully moving diagnostic and imaging products through the regulatory process will obviously stand us in good stead with our therapeutics as well.

Our priority, however, is to pursue plans for Phase III clinical trials, beginning in 1997, to confirm the therapeutic effect of THERATOPE® vaccine in patients with metastatic breast cancer.

Our original goal was to proceed with Phase III trials of THERATOPE® vaccine in association with a corporate partner. While discussions with potential partners continue, our much improved financial picture at the close of 1996 ensures the trials will proceed — with or without a partner.

A position of strength

On the financial front, 1996 was marked by two pivotal events for Biomira: a $36 million common share offering successfully completed in October; and, by year-end, the exercise of some 7.4 million common share warrants issued in June 1995. For Biomira, these two events meant a net cash infusion of over $76 million.

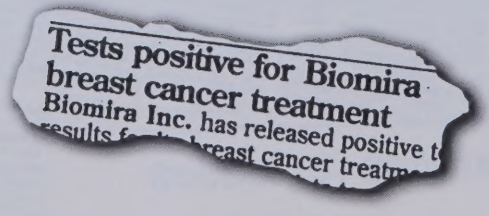
With its financial base solidified, and a synergistic, experienced management and scientific team in place, Biomira has the option of pursuing a number of complex tasks in parallel rather than in sequence. Reducing the time required to move promising technology through clinical trials and regulatory hurdles will obviously translate into earlier returns for investors.

Our strong cash position also allows us to move our therapeutic products as far along the value curve as possible before we forge an alliance with a major partner. Biomira's objective is to choose the licensing agreement which offers the maximum potential return to our shareholders.

As always, our strength throughout 1996 also came from human resources. To our Directors, our partners, our business and scientific colleagues and to all 250 employees of Biomira, I extend my thanks for the extraordinary level of enthusiasm and commitment you brought to all of our activities.

Toward a defining year

If 1996 can be characterized as an emerging year for our company, 1997 will almost certainly be our defining year. Increasingly, Biomira will be defined by its proven expertise in choosing and developing the right product candidates, designing and conducting appropriate clinical trials and successfully managing the regulatory environment to gain market acceptance for its products.



Major goals with important implications for our shareholders are the planned Phase III trial for our THERATOPE® vaccine and, ultimately, negotiation of a suitable licensing agreement with a corporate partner.

Other vaccines are moving through our product pipeline as well. Among our 1997 priorities is further exploration of peptide-based vaccines and other innovative strategies for immunotherapy of cancer. Peptide vaccines, for example, have the power to stimulate a cellular immune response to cancer. Our work in this area is strengthened by the expertise of our subsidiary, Biomira USA Inc.

We will continue to work closely with the Health Protection Branch through the regulatory review of our Tru-Scint® AD™ imaging agent, recognizing that its ultimate commercialization will mark another significant milestone for Biomira.

Keeping in mind the long and costly journey from rudimentary technology to market-ready products, the company will not show a profit in 1997. We expect some of our operations to be profitable, however. In 1996, for example, the sale of TRUQUANT® BR™ kits contributed to a profitable fourth quarter for our manufacturing and distribution subsidiary, Biomira Diagnostics Inc. This suggests an excellent year ahead as product recognition grows in US medical circles.

Also likely to have an impact on our future revenue is an exclusive licensing agreement signed last August between Biomira and Ohio-based Neoprobe Corporation. The agreement grants Neoprobe an exclusive worldwide license for Biomira's breast cancer targeting agent (the MAb-170 antibody which is part of our Tru-Scint® AD™ technology) for use in surgical detection of breast cancer. Biomira has received an upfront fee and will receive milestone payments and royalties when the Neoprobe technology is commercialized.

From future to present tense

The biotechnology industry generally tends to speak in the future tense. Now, at the close of our most successful year to date, I'm happy to say that nearly two-thirds of Biomira's Cancer Management philosophy can be discussed in the present tense. This is exciting news for thousands of potential beneficiaries. By the turn of the century or even before — as Biomira rises up the valuation curve in line with advances in our therapeutic portfolio — we expect both cancer patients and far-sighted investors to join us in the winner's circle.

Alex McPherson, MD, PhD
President and CEO

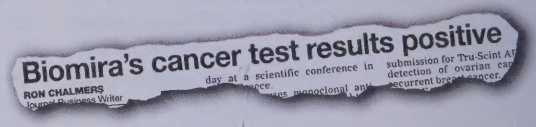

Biotechnology industry comes of age

Managing Cancer

While a cure for cancer remains elusive, there is a growing realization that improved cancer management is very much within the reach of current medical science. "Smart" diagnostics have the ability to discover the presence and accurately pinpoint the location of tumours; and a new generation of minimally toxic therapies can prolong and improve the life of the cancer patient. Together, these products are destined to change the way the world views this tragic disease.

With its novel approach to cancer management, Biomira is contributing to a new perspective on cancer. At its heart is the conviction that the disease can be successfully controlled — just as heart disease and diabetes are controlled — with the right combination of diagnostics and therapeutics. Discovering that strategic combination, then translating it into cost-effective, value-added, easily administered products that promise genuine benefits for cancer patients, remains Biomira's overriding goal.

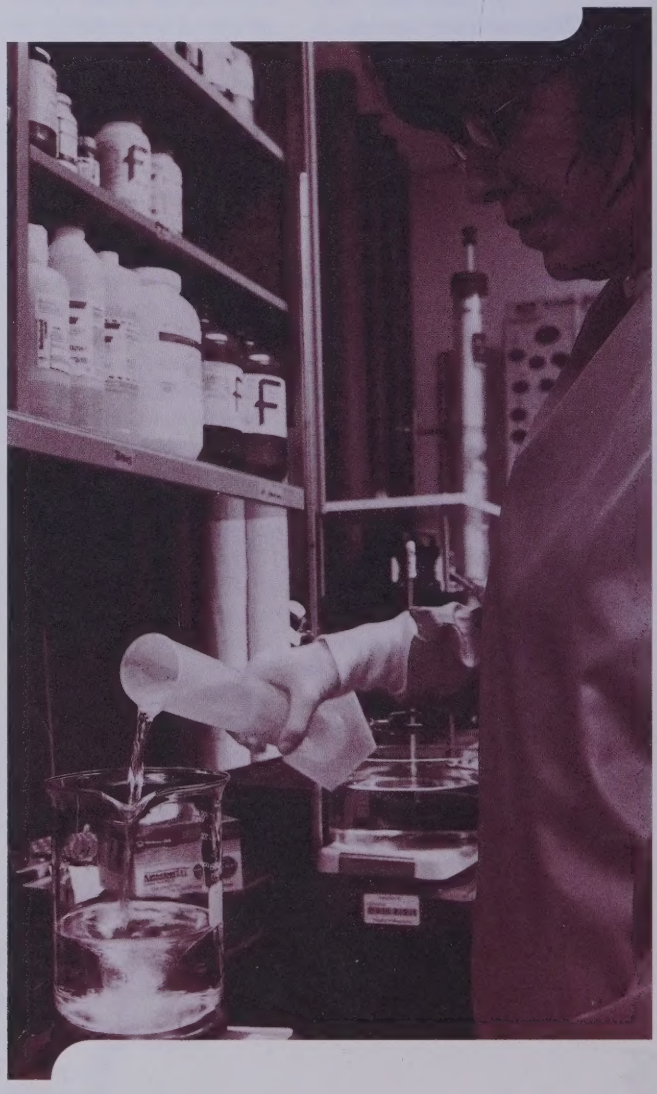
The capsule descriptions that follow of Biomira's activities will help our shareholders and other observers chart our progress toward that goal.

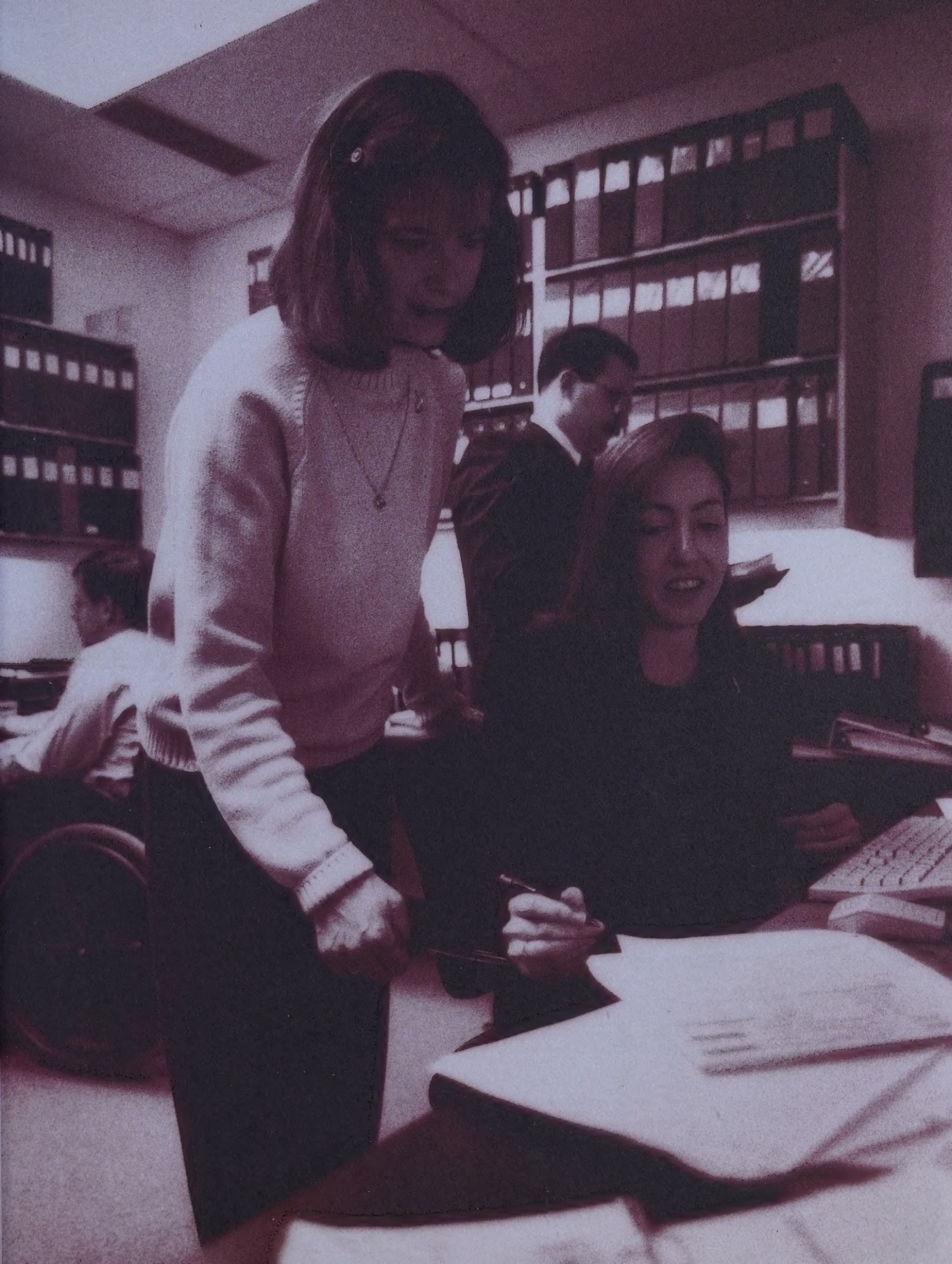

Biomira's cancer test results positive

RON CHALMERS

day at a scientific conference in

submission for Tru-Scint AF detection of ovarian can recurrent bre cancer.



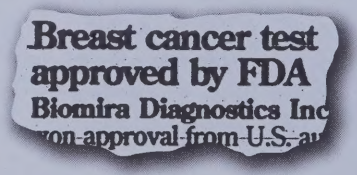


Testing

TRUQUANT® BR™ RIA: removing the uncertainty

As the first breast tumour marker test to receive expedited review by the US Food and Drug Administration (FDA) and the first such test to be approved for marketing in the US, Biomira Diagnostics' TRUQUANT® BR™ RIA was introduced to the market with a high level of expectation. There was ample reason for the confidence. In a three-year clinical trial of 166 breast cancer patients with Stage II or III breast cancer, who were clinically free of the disease at the time of the trial, positive results from the TRUQUANT® BR™ test accurately signaled the recurrence of breast cancer 88% of the time.

The *in vitro* test works by detecting circulating tumour-related antigens in the blood of cancer patients. The antigen, CA 27.29, is present on breast cancer cells. As the cancer grows or spreads, the antigen is shed into the bloodstream and its presence is picked up during the test. The easily performed test is seen as an efficient and cost-effective complement to more invasive and expensive tests such as bone scans. It is also viewed as a positive advance that could affect as many as one million US women at risk for recurrent breast cancer.



Within six months of receiving FDA clearance, the test was being offered by three of four US national reference laboratories as well as by several regional and hospital laboratories.

Focus on the immune system

Also part of Biomira's testing activities is research on the Signal Transduction Evaluation Program (STEP) — a series of diagnostic blood tests that assess the status of the patient's immune system to respond to immune-based therapy. The development of STEP, in collaboration with the US National Cancer Institute, is of particular interest to Biomira, which is involved in an extensive immunotherapeutic program.

Testing

Cancer Type	Country	Pre-Clinical	Clinical Evaluation and Research	Marketing Application	Approval
TRUQUANT® tumour marker kits					
Breast	US				
Breast	ex-US				
Ovarian	ex-US				
Gastrointestinal	ex-US				
Signal Transduction Evaluation Program (STEP)					
Multiple	US				

as of March 5, 1997

Imaging

Tru-Scint® AD™ kit: targeting cancer cells

Detecting the presence of cancer in the human body is a crucial first step in confronting the disease. The ability to "image" the cancer — to see where it is located — is equally important. Using its proprietary monoclonal antibody, MAb-170, which reacts with most adenocarcinomas, Biomira has developed the Tru-Scint® AD™ imaging agent as an effective vehicle for targeting cancer cells. The antibody is labeled with technetium 99m (a radioisotope), then injected into the patient. Nuclear medicine imaging techniques are then used to pick up the radio tracer accumulation and determine the site of the cancer.

Now in Phase III clinical trials in the US and in Phase II trials in the United Kingdom, Germany and Canada, the imaging technology has been shown to have a high level of accuracy in detecting both breast and ovarian cancer. For example, in one trial involving women over age 40 suspected of having ovarian cancer, the Tru-Scint® AD™ imaging agent detected the cancer with an accuracy of 92%.

Based on Phase II clinical trial results, Biomira has filed a New Drug Submission with the Canadian Health Protection Branch (HPB) for use of the Tru-Scint® AD™ kit in detecting primary, residual or recurrent ovarian cancer and recurrent breast cancer.

Biomira submits Tru-Scint in Canada

Imaging

Cancer Type	Country	Pre-Clinical	Phase 1	Phase 2	Phase 3	Marketing Application Filed	Approval
Tru-Scint® AD™ kit							
Breast & Ovarian	Canada				Expected Filing		
Breast	Canada						
Breast	US						
Ovarian	UK						
Ovarian	Germany						

as of March 5, 1997

Years of research on the complexities of immune system response to cancer form the basis of Biomira's promising portfolio of cancer therapeutics. Building on the body's ability to distinguish healthy cells from potentially harmful ones, the company has developed several proprietary formulations of synthetic tumour-associated antigens — essentially the identifying structures of harmful cells. Administered to the patient in the form of carbohydrate or peptide-based synthetic vaccines, these antigens stimulate an immune system attack on tumours. Biomira currently has several major cancer therapies in various stages of development.

THERATOPE® therapeutic vaccine

Highly encouraging results from Phase II clinical trials of Biomira's THERATOPE® therapeutic vaccine have added momentum to plans for Phase III trials to begin in 1997. Following review of the data by independent biostatisticians, Biomira announced that the median survival for 25 breast cancer patients who received the standard THERATOPE® vaccine program was 26.5 months. This compared to median survival of 9.2 months for a retrospective control group. Both the historical control group and the clinical trial patients, matched for age, disease profiles and treatment histories, were treated during the period 1991-1995, with the control group receiving standard treatments such as chemotherapy and radiation, but not THERATOPE® vaccine.

The dramatic results, presented in November 1996 to the Second Annual Conference on Immunotherapeutic Strategies for Cancer in San Diego, CA have established THERATOPE® vaccine as one of the most promising candidates in a new generation of relatively non-toxic cancer management products.

Cdn. CA vaccine shows promise in phase II trials

THERATOPE® vaccine consists of an antigen, which is synthesized at Biomira and mimics the natural antigen found on many cancers of the breast, ovary and colon, along with a carrier molecule and an immune stimulant. The vaccine works by stimulating an immune response to both the synthetic mimic and to similar molecules found on the surface of cancer cells. In all, THERATOPE® vaccine has been tested on over 300 patients with breast, ovarian, colorectal or pancreatic cancers.

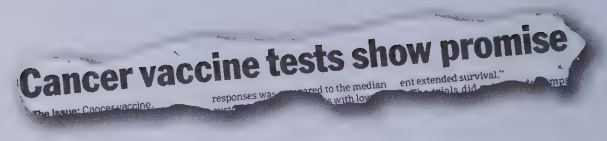
While planning for, and focusing on, the Phase III clinical trial in breast cancer, Biomira is also investigating the possibility of submitting a drug approval application to both Canadian and US regulatory authorities. The result could be accelerated review of THERATOPE® vaccine based on Phase II results.

Lack of severe side effects is seen as a major benefit of THERATOPE® vaccine. In addition, the vaccine's apparent ability to prolong survival suggests it may in future contribute to an improved quality of life for patients with metastatic or recurrent breast cancer.

MUC-1 Vaccines

Biomira currently has two peptide antigen-based vaccines in development. Both are designed to target the MUC-1 peptide antigen present on 90% of solid tumour cancers. BP1-7 has been tested for safety in two Phase I trials for women with recurrent or metastatic breast cancer. A second vaccine, BLP25 is in a novel liposomal formulation. It has undergone preclinical testing and will move into human Phase I trials in 1997. Trial results for the two vaccines will be compared to determine which product candidate will undergo further development.

In December, 1996, Biomira signed a license agreement with the Dana-Farber Cancer Institute of Boston, MA.,



giving Biomira worldwide rights to the Mucin 1 (MUC-1) peptide antigen. Biomira has the right to use Dana-Farber's two MUC-1 related patents for peptide-based cancer vaccines.

Liposomal IL-2

Liposomal IL-2 is a novel delivery system for administering interleukin 2 by incorporating it in liposomes, delivery vehicles that encapsulate a specific compound and modify its efficacy and toxicity. Interleukin 2 is a cytokine; a growth factor that influences cell development and modulates the immune response. This formulation has potential as a potent immunomodulator to be used with therapeutic vaccines to enhance their apparent efficacy.

Work on the liposomal IL-2 has been spearheaded by Biomira USA, a wholly owned Biomira subsidiary acquired in 1995. Located in Cranbury, New Jersey, the company has major strengths in basic and applied research, immunotherapy product development and liposomal delivery systems.

Strategy for success

Entering 1997 with a rich portfolio of product candidates, Biomira will continue to pursue a prudent, yet aggressive, development strategy. The goal is to advance products with the greatest potential for patient benefit and commercial success while remaining on the cutting edge of immunotherapy technology.

Therapy

Cancer Type	Country	Pre-Clinical	Phase 1	Phase 2	Phase 3	Marketing Application Filed	Approval
THERATOPE® vaccine							
Breast	Canada						
Breast	US						
Breast	UK						
Ovarian	Canada						
Ovarian	US						
Colorectal	Canada						
Colorectal	US						
BR1-7 vaccine							
Breast	Canada						
Breast	US						
BLP25 vaccine							
Breast and Lung	Canada						
Liposomal IL-2 adjuvant							
Various	Canada						
Liposomal vaccine							
Lymphoma	US						

as of March 5, 1997

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Biomira Inc. and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles which differ in some respects from those used in the United States. The significant differences in accounting principles, as they pertain to the financial statements, are identified in the related notes. The financial statements include some amounts that are based on best estimates and judgments of management. Financial information used elsewhere in this annual report is consistent with that in the financial statements.

The management of the company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee meets quarterly with management and the external auditors to discuss the results of the audit examinations with respect to the adequacy of the internal accounting controls and to review and discuss the financial statements and financial reporting matters. The shareholders' auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche, Chartered Accountants.

Alex McPherson, MD, PhD
President and Chief Executive Officer

Edward A. Taylor, CGA
Vice President, Finance & Administration and Chief Financial Officer

GENERAL

The following information, prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP), which differ in certain respects from those of the United States (US GAAP), should be read in conjunction with the consolidated financial statements and accompanying notes.

Biomira Inc. and its wholly owned subsidiaries, Biomira Diagnostics Inc. (BDI) and Biomira USA Inc. (BioUSA), are dedicated to the research, development and commercialization of products for the diagnosis and treatment of cancer. In addition, through BDI, the company is involved in the development, manufacture and marketing of diagnostic kits for infectious diseases.

Substantially all of the company's products are subject to regulation by the Health Protection Branch (HPB) in Canada, the Food and Drug Administration (FDA) in the United States, and similar agencies in other countries. Except for TRUQUANT® *in vitro* diagnostic test kits for the detection and monitoring of breast, ovarian and gastrointestinal cancers and certain *in vitro* diagnostic kits for infectious diseases, the majority of the company's products are not approved for sale. As a result, the company has limited revenue from commercial sales. Biomira is currently undertaking the rigorous clinical trial process in order to obtain regulatory approval for the commercial sale of its potential products. Unless and until the company obtains regulatory approval for the commercial sale of its potential products, it will incur losses, which will likely be substantial.

Highly focused on a full spectrum of products for cancer management, Biomira has lead products and potential products in three categories: testing, imaging and therapeutics.

Currently the company's lead products and potential products in the diagnostic testing portfolio include TRUQUANT® *in vitro* diagnostic tests for the detection and monitoring of breast, ovarian and gastrointestinal cancers and an *in vitro* diagnostic test administered to assess the status of a patient's immune system to respond to immune-based therapy. On April 1, 1996, the US FDA cleared the company's TRUQUANT® BR™ RIA blood test kit for the early detection of recurrent breast cancer. TRUQUANT® BR™ RIA is the first tumour marker test for breast cancer to receive expedited review by the FDA, and is the first such test to be cleared for marketing in the United States.

The company's lead potential product in the diagnostic imaging portfolio is Tru-Scint® AD™ antibody for the *in vivo* imaging of primary, residual or recurrent ovarian cancer and recurrent breast cancer and perhaps other cancers. In 1996, Biomira filed a Canadian New Drug Submission with the HPB for use of the Tru-Scint® AD™ kit in detecting primary, residual or recurrent ovarian cancer and recurrent breast cancer. While the product has been given priority evaluation status by the HPB in Canada, Biomira is continuing with Phase III clinical trials in the US and Phase II trials in the United Kingdom and Germany.

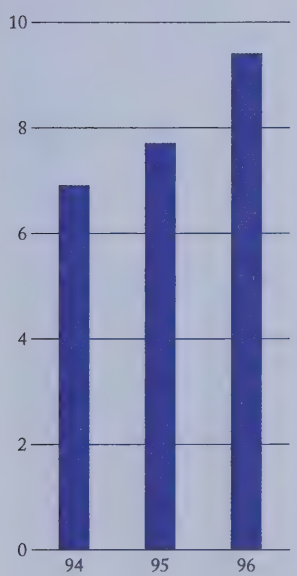
Highly encouraging results from Phase II clinical trials of Biomira's THERATOPE® therapeutic vaccine and the advancement of the MUC-1 program (BPI-7 and BLP25 vaccines) have added significant depth to the company's portfolio of potential therapeutic products. Its lead therapeutic candidate, THERATOPE® therapeutic vaccine for the potential treatment of breast, ovarian and colorectal cancers, will be entering a lengthy and expensive Phase III clinical trial in breast cancer in 1997.

Biomira believes that, since the above products and potential products have been developed under intense scrutiny and subjected to rigorous peer reviews, each may have commercial potential. Nevertheless, lengthy and expensive clinical trials essential to the drug development process will be needed to satisfy regulatory authorities worldwide of the safety and efficacy of these potential products. TRUQUANT® BR™ radioimmunoassay (RIA) has been cleared by the FDA for marketing in the US and, along with other TRUQUANT® radioimmunoassays, is now being sold in other parts of the world, including Canada. Biomira's other products continue to be tested in a broad range of clinical trials in Canada, United States and Europe.

The company believes there are substantial commercial opportunities for its potential products, which may lead to new and better methods of diagnosing and treating cancer. However, the development of potential products involves long lead times, and the timing and amount of revenues from these potential products are affected by a number of factors beyond the company's control. Included are the pace of technological development, a changing regulatory environment, and the results of clinical trials undertaken by others.

To fund its operations, Biomira relies principally upon the proceeds of public and private offerings of equity securities, and, to a lesser extent, on sales, licensing revenues and research contracts. Research contracts typically fund specific programs. The company retains exclusive rights to technologies developed under such contracts, although it may be required to repay the amounts received through the payment of royalties on commercial sales of products incorporating the respective technology.

Consolidated Revenues
($ million)



Since 1985 the company has raised $233 million through public offerings, private placements of equity and other equity placements. It has incurred cumulative losses of $131 million which has been directed to research and development, clinical trials, regulatory approvals, infrastructure development, and administrative support of efforts to commercialize the technologies.

On February 28, 1994 Biomira acquired the remaining shares of its then 46%-owned affiliate, BDI. This acquisition was accounted for under the purchase method of accounting. Financial results for the periods prior to March 1, 1994 (including the year ended December 31, 1993 and the two months ended February 28, 1994) include the results of BDI on the equity basis, as it was a 46%-owned affiliate, and for the ten months from March 1, 1994 through December 31, 1994 as a consolidated entity. Assets acquired as a result of the purchase of the remaining shares of BDI are valued at their fair market value on the date of acquisition (February 28, 1994), with the excess purchase price carried on the financial statements as goodwill.

Effective October 25, 1995, Biomira acquired BioUSA through a merger of a newly organized subsidiary with BioUSA in which the previously outstanding BioUSA shares were converted into an aggregate of 3,450,000 common shares of the company. This acquisition was accounted for under the purchase method of accounting. Financial results of BioUSA are consolidated with those of the company from the effective date of the acquisition (October 25, 1995). Assets acquired as a result of the acquisition of BioUSA are valued at their fair market value on the date of acquisition, with the excess purchase price carried on the financial statements as research and development acquired, as required under Canadian GAAP. Under US GAAP, the company would have been required to charge the acquired research and development as an expense because, due to the early stages of BioUSA's clinical trials, there is no evidence of a sustainable asset.

Effective December 1, 1995, all of the assets of Biomira Research Inc. were sold for total proceeds of $514,000 to a third party. The sale resulted in a gain on the sale of assets of $164,000. In connection with the sale the company granted an exclusive license to MAb B43.13 for the further development of anti-idiotype therapy. Biomira will be entitled to a royalty on any commercial sales of products incorporating MAb B43.13.

RESULTS OF OPERATIONS

The consolidated losses from continuing operations for the years 1996, 1995, and 1994 were $21.8 million, $21.4 million and $28.1 million, respectively. These losses are typical of a mid-stage biotechnology company as it proceeds through the rigorous regulatory approval process.

The consolidated losses, after accounting for discontinued operations and the gain on disposal of its former health care information systems subsidiary, HealthVISION (HVC), for the years 1996, 1995 and 1994 were $21.8 million, $21.4 million and $17.0 million, respectively.

On a pro forma basis, assuming that BioUSA had been acquired on January 1, 1994, the consolidated losses of the company would have increased to $28.3 million in 1995 from $25.9 million in 1994.

REVENUE

Revenues for the years ended 1996, 1995 and 1994 were $9.4 million, $7.7 million and $6.9 million, respectively. These increases are mainly due to growth in sales of diagnostic products as well as increased interest income. Revenues consist of product sales, research contracts, licensing, royalties and interest income.

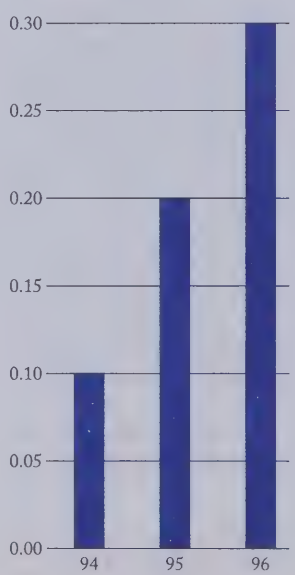
Product Sales

Product sales for the years ended 1996, 1995, and 1994 were $6.0 million, $4.1 million and $3.7 million, respectively. Included are the sale of BDI's TRUQUANT® diagnostic kits, hepatitis diagnostic kits and various diagnostic products distributed for other manufacturers. The 1996 sales total includes approximately six months of US TRUQUANT® sales following the 1996 FDA clearance of the company's TRUQUANT® diagnostic kit for the early detection of recurrent breast cancer. The other component of 1996 product sales is the contract manufacture of clinical grade material for third parties and the sale of Biomira antigens and antibodies. Other product sales for each of the previous two years include the sale of Biomira antigens and antibodies.

Other Revenues

Revenues from third party research contracts for the three years 1996, 1995 and 1994 were $0.4 million, $1.1 million and $1.2 million, respectively. These amounts relate primarily to contracts signed with Industry, Science and Technology Canada and the National Research Council of Canada. The 1996 decrease is mainly due to the expiration of several large research funding contracts. Some of this funding will require royalty payments if the specific research undertaken results in a commercial product, or if the derived technology is licensed or sold to third parties (see note 10 to the consolidated financial statements).

Licensing Revenues
($ million)



Revenues received for licensing out certain technologies and royalties received for the three years 1996, 1995 and 1994 were $0.3 million, $0.2 million, and $0.1 million, respectively. These amounts principally reflect licensing of Biomira's proprietary antibodies for use in *in vitro* diagnostic kits to manufacturers of fully automated instrument systems.

Interest income for the years 1996, 1995 and 1994 was $2.8 million, $2.3 million and $2.0 million, respectively, and is directly related to the cash balances of the company. It is Biomira's policy to invest surplus cash in low risk securities. The effective rate of return on the company's surplus cash for 1996 was 5.4% compared to 7.3% for 1995, reflecting the decline in interest rates which occured in 1996.

EXPENSES

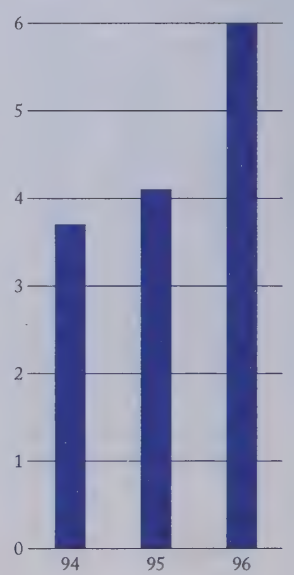
Total expenses for the years 1996, 1995, and 1994 were $31.2 million, $29.1 million, and $34.6 million, respectively. These expenses are all related to the company's first and second generation therapeutic and diagnostic products and product candidates, infrastructure development, and administrative support of the company's efforts to commercialize its technologies.

As the company's programs proceed over the next few years through Phase II and Phase III clinical trials and through the rigorous regulatory approval process it is anticipated that expenses will increase.

Cost of Sales

Cost of sales for the three years 1996, 1995 and 1994 were $3.5 million, $3.5 million and $3.0 million, respectively. The gross margins for the years 1996 and 1995 were $2.6 million (42.5% of product sales) and $0.6 million (14.5% of product sales).

Product Sales
($ million)



The 1996 increase in gross margin is due to the elimination of non-profitable products for the infectious disease market and increased efficiency in diagnostic kit production. During late 1995 the company instituted a number of changes at BDI, including the elimination of a non-profitable product for the infectious disease market and a reduction in personnel, which have resulted in increased margins at BDI in 1996.

Research and Development

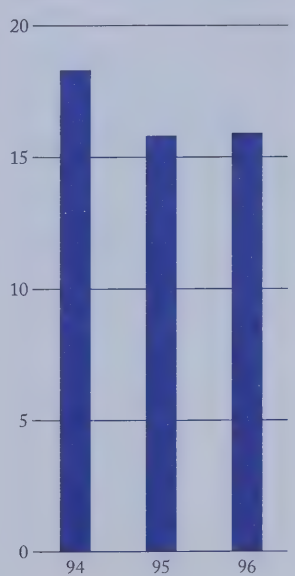
Since its inception in 1985, Biomira has invested heavily in the pursuit of research and development of its technologies. For the three years ended 1996, 1995 and 1994, the company had $16.2 million, $15.8 million and $18.3 million in direct research and development costs. These include substantial costs incurred in pursuit of clinical trials and other costs associated with regulatory approval for its two main programs, THERATOPE® vaccine and Tru-Scint® antibody, product development, process formulation, and development of the company's manufacturing infrastructure.

As Biomira's main programs proceed through Phase II/III clinical trials and through the regulatory approval process over the next few years it is anticipated that these research and development expenses will increase. Furthermore, as a result of the acquisition of BioUSA, the company is now pursuing four additional programs, which will require it to make advances to BioUSA for further development costs.

Research and Development Acquired

In 1994 the company spent $4.8 million to acquire research and development from a related party. These expenses were non-cash related, resulting from the issuance of 600,000 Biomira common shares. This transaction was provided for in an agreement dated May 6, 1991. The valuation of these common shares, and hence the valuation of the research and development acquired, was determined by the trading price of the company's common shares on the date of the transaction (June 14, 1994- $8.00 per share) on the Toronto Stock Exchange.

R&D Expenses
($ million)



Selling and General Administration

Selling and general administration expenses for 1996, 1995 and 1994 were $7.0 million, $7.0 million and $6.0 million, respectively, which include $2.8 million, $3.0 million, and $1.8 million, respectively, attributable to BDI for 1996, 1995, and 1994. The balance of 1996 selling and general expenses of $4.2 million compares to $4.0 million in 1995 and $4.2 million in 1994.

SHARE OF LOSS OF AFFILIATED COMPANY

The share of loss of affiliated company, BDI, includes Biomira's 46% share for the two months ended February 28, 1994 of $0.4 million.

DISPOSAL OF HealthVISION CORPORATION

Biomira disposed of its 75%-owned health care information systems subsidiary, HealthVISION Corporation, on February 11, 1994. During the period of ownership, Biomira's share of HVC's losses totaled $11.6 million (from September 1990 to December 1993). On disposition the company recorded a gain on sale of $11.1 million, resulting in a net loss on the investment of $0.5 million.

In conjunction with the sale, the company provided specific and general representations and warranties to the purchaser. These representations expire at various dates to 1998. On January 31, 1996, the purchaser filed a statement of claim against the company pursuant to these representations and warranties in the net amount of $1.4 million and a claim for punitive damages in the amount of $1.0 million The company has filed a statement of defence dated February 16, 1996 and is of the opinion that no material liability will arise from the claim and therefore no provision for any liability in connection with this action has been made in the financial statements.

CAPITAL ASSETS

The company has expended approximately $3.0 million for the purchase of capitalized assets in preparing manufacturing infrastructure and facilities that enable it to manufacture most of its product requirements for Phase I, Phase II and Phase III clinical trials. The company also has the potential to manufacture some of its products for commercial sale, in a 17,000 sq. ft. leased facility at a lease cost in 1996 of $135,000.

In addition, in 1992 the company significantly expanded its research facilities by entering into a 10-year lease agreement for a 58,000 sq. ft. research facility with advanced research laboratories and offices for an annual rent of $350,000. The company has an option, expiring in 2002, to purchase the land and building for $5.8 million. The company believes the replacement cost for this facility is significantly greater than the option price.

Fixed asset purchases by the company for the years 1996, 1995, and 1994 were $0.6 million, $0.3 million and $1.6 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Since the incorporation of Biomira in 1985, the company's research programs, capital expenditures and investments have been financed from several sources. These have included research collaboration agreements with both government and industry partners, up-front licensing fees of the company's technologies, interest income, and to a much greater extent, public and private placements of the company's common shares. The company has not produced an operating cash flow surplus since its inception nor is an operating cash surplus expected until its products are approved by the regulatory authorities and subsequently commercialized.

Cash and short term investments at December 31, 1996 were $94.4 million, an increase of $57.6 million from December 31, 1995. During 1996, the company generated net $33.7 million through a public share issue of 4,000,000 common shares and $42.5 million through the exercise of 7,382,351 share warrants resulting in the issue of one common share for one warrant. The existing cash resources are expected to be sufficient to finance the planned research and development, clinical trials, capital expenditures and working capital requirements into the fourth quarter of 2000. The sufficiency of cash on hand for continued operations past 2000 will depend on several factors including the company's success in the commercial launch of some of its products, the nature and speed of scientific progress, the advancement of preclinical and clinical studies and the timing and costs in obtaining regulatory approvals for its products. In addition, changes in existing collaborative relationships as well as the establishment of new ones, product licensing efforts, joint ventures and other financing relationships could materially impact on the company's financial position.

During 1996 the company spent $17.2 million on research and development and activities related to commercializing potential products, $0.6 million on the purchase of capital assets, and $0.8 million for working capital requirements — for total financing needs of $18.6 million. These expenditures were financed primarily from cash reserves accumulated through the sale of common shares. Included in cash reserves are proceeds from the June 1995 rights offering, the October 1996 sale of 4,000,000 common shares, and the exercise of common share warrants throughout 1996.

During 1995 the company spent $18.6 million on research and development and activities related to commercializing its potential products, $0.3 million on the purchase of capital assets, $7.6 million on the acquisition of BioUSA and $1.1 million for working capital requirements — for total financing needs of $27.6 million. These expenditures were financed from proceeds on the sale of common shares of $36.4 million through a rights offering completed in June 1995 and the issuance of Biomira common shares as consideration for the BioUSA acquisition.

The company has a line of credit with a Canadian financial institution in the amount of $400,000 which is not currently utilized nor was it used during any of the last three fiscal years. BDI also has a line of credit in the amount of $200,000 secured by marketable securities.

Biomira may require additional capital in order to continue research programs and to fund the development costs of resulting products. The company may find it attractive to issue additional debt and equity securities in the future if it is deemed favourable under current market conditions or if funding for the continued development of its programs cannot be satisfied through other cash resources. Despite the current volatility in the capital markets relating to biotechnology companies, some firms have successfully obtained the capital needed to set up and expand operations. While in some cases the valuations of these companies have been at lower levels than in previous financing rounds, capital remains available for most successful companies. However, the timing and amount of capital available will continue to be affected by the state of the financial markets. In addition, the company may be required to secure additional funds, but given the nature of its business, there can be no assurance that adequate funds will be available or that they will be available on terms acceptable to the company. Biomira made the strategic decision to retain sole ownership of its core technology until such time as the programs are closer to commercialization. A strong cash position allows the company's products to progress as far along the value curve as possible prior to Biomira forging an alliance with a corporate partner. Potential relationships include marketing and distribution agreements, collaborative agreements on research and development and/or regulatory support. The company is encouraged by third party interest in its technologies, although there can be no assurance that Biomira will be successful in developing any such relationships or that such relationships will lead to commercial revenues and profits for the company.

FINANCIAL OUTLOOK

Entering 1997 with a strong portfolio of product candidates, Biomira will continue to pursue a development strategy which advances products with the greatest potential for commercial success. The future performance of Biomira relies on the company's success in bringing new products to the marketplace. This success will depend on many factors, including the effectiveness and safety of the products, timely regulatory agency approvals for new products and new indications, and the degree of patent protection afforded to particular products. Biomira believes it has strong proprietary and/or patent protection or the potential for strong patent protection for a number of its products currently under development; however, the ultimate strength of patent protection may be determined by the courts and/or changes in patent legislation in various countries. Significant research and development funding will be required during the next several years for clinical trials, infrastructure development, the commercial development of products, and the market launch of new products. There can be no assurances that new products being developed by Biomira's competitors will not be more effective and/or more effectively marketed and sold than any that may be developed by the company.

Revenues from the company's sales of diagnostic products are expected to grow during the 1997 fiscal year. Increases will depend primarily on further penetration into new and existing markets, government health care reimbursement policies, regulatory approval of competitive products, and the effects of competitive products. In addition, revenues from research contracts with third parties are of a limited duration and there is no assurance that they will be renewed or replaced.

Except for historical information, the matters discussed in this report are by their nature forward-looking. For the reasons stated in this annual report or in the company's regulatory filings, or for various unanticipated reasons, actual results may differ materially.

Auditors' Report

To the Shareholders of Biomira Inc.

We have audited the consolidated balance sheets of Biomira Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit and of changes in financial position for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Edmonton, Canada
February 18, 1997

Consolidated Balance Sheets

As at December 31

(expressed in thousands of Canadian dollars, except per share amounts)	1996	1995
Assets		
Current		
Cash and short-term investments	$ 94,402	$ 36,791
Accounts receivable	2,252	1,801
Inventories *(Note 5)*	2,341	1,579
Prepaid expenses	589	502
	99,584	40,673
Capital Assets *(Note 6)*	3,442	4,738
Goodwill (net of accumulated amortization of $973; 1995 - $629)	744	1,087
Research and Development Acquired (net of accumulated amortization of $2,717; 1995 - $388) *(Note 4)*	2,829	6,598
	$ 106,599	$ 53,096
Liabilities		
Current		
Accounts payable	$ 1,672	$ 1,099
Accrued liabilities	1,873	1,928
	3,545	3,027
Long-term Debt *(Note 7)*	471	428
Redeemable Preference Shares *(Note 8)*	30	30
	4,046	3,485
Contingencies and Commitments *(Note 10)*		
Shareholders' Equity		
Capital stock *(Note 8)*	224,461	149,697
Contributed surplus	8,901	8,901
Deficit	(130,809)	(108,987)
	102,553	49,611
	$ 106,599	$ 53,096

(See accompanying Notes to Consolidated Financial Statements)

Approved by the Board

Director *Director*

Consolidated Statements of Operations and Deficit

Years ended December 31

(expressed in thousands of Canadian dollars, except per share amounts)	1996	1995	1994
Revenue			
Product sales	$ 6,015	$ 4,080	$ 3,738
Research contracts	386	1,138	1,150
Licensing, royalties and other	261	182	96
Interest	2,759	2,295	1,964
	9,421	7,695	6,948
Expenses			
Cost of sales	3,458	3,490	3,043
Research and development *(Note 11)*	16,217	15,842	23,104
Selling and general administration	6,984	6,975	6,019
Depreciation and amortization	4,541	2,743	2,417
Interest on long-term debt	43	56	60
	31,243	29,106	34,643
Loss from Continuing Operations Before Undernoted Items	21,822	21,411	27,695
Share of Loss of Affiliated Company	–	–	380
Loss from Continuing Operations	21,822	21,411	28,075
Gain on Sale of Discontinued Operations *(Note 3)*	–	–	11,064
Loss for the Year	21,822	21,411	17,011
Deficit, Beginning of Year	108,987	87,576	70,565
Deficit, End of Year	$ 130,809	$ 108,987	$ 87,576
Loss from Continuing Operations per Common Share	$ 0.57	$ 0.78	$ 1.27
Loss per Common Share	$ 0.57	$ 0.78	$ 0.77
Weighted Average Number Of Common Shares Outstanding	37,954,978	27,449,561	22,197,058

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Statements of Changes in Financial Position

Years ended December 31

(expressed in thousands of Canadian dollars, except per share amounts)	1996	1995	1994
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Loss from continuing operations	$ (21,822)	$ (21,411)	$ (28,075)
Add items not affecting cash			
Amortization of interest	43	38	36
Depreciation and amortization	4,541	2,743	2,417
Share of loss of affiliated company	–	–	380
Share of loss of partnership	–	–	500
Research and development acquired on purchase of partnership	–	–	4,800
	(17,238)	(18,630)	(19,942)
Net change in non-cash balances relating to continuing operations *(Note 12)*	(782)	(1,547)	1,624
Cash used in continuing operations	(18,020)	(20,177)	(18,318)
Investing			
Business acquisition *(Note 4)*	–	(7,604)	–
Decrease in long-term receivables	–	471	–
Purchase of capital assets	(573)	(325)	(1,619)
Investment in and advances to affiliates	–	–	(3,179)
Proceeds on disposal of discontinued operations	–	–	13,544
	(573)	(7,458)	8,746
Financing			
Proceeds on issue of common shares, net of issue costs	76,204	36,376	2,385
Increase (decrease) in Cash and Short-term Investments	57,611	8,741	(7,187)
Cash and Short-term Investments, Beginning of Year	36,791	28,050	35,237
Cash and Short-term Investments, End of Year	$ 94,402	$ 36,791	$ 28,050

(See accompanying Notes to Consolidated Financial Statements)

Notes to the Consolidated Financial Statements

Years ended December 31

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

1. DESCRIPTION OF BUSINESS

The Company, incorporated under the Canada Business Corporations Act, is a biotechnology, health care company utilizing proprietary and patentable methods in the development, manufacture and sale of products for the diagnosis and treatment of cancer. It is also involved in the manufacture and sale of diagnostic test kits for infectious diseases including hepatitis.

2. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which do not differ materially from those established in the United States, except as disclosed in Note 14, and include the following significant accounting policies:

Basis of consolidation

The Company's wholly-owned subsidiaries, Biomira Diagnostics Inc., and Biomira USA Inc.(BioUSA), are consolidated.

Cash and short-term investments

The Company invests its surplus cash in treasury bills and other short-term investments with maturities not exceeding one year. Short-term investments are valued at the lower of cost and market value.

Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value.

Depreciation and amortization

Depreciation and amortization of capital assets, which are stated at cost, are provided at rates which are designed to amortize the cost of capital assets over their estimated useful lives on a straight-line basis as follows:

Scientific equipment	20%
Computer software and equipment	33+1/3%
Office equipment	20%
Leasehold improvements	Term of the lease plus one renewal
Manufacturing equipment	25%

Goodwill

Goodwill is recorded at cost and is amortized on a straight-line basis over five years. Goodwill is evaluated periodically and if conditions warrant, an impairment valuation is provided.

On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration current operating results, assessment of future operating trends, and consideration of the current and future regulatory environment. In the year of a permanent impairment in value, the goodwill will be written down to its estimated value.

Research and development costs

The Company expenses research costs as incurred. Certain product development costs are capitalized once market and technical feasibility has been established. The Company has prospectively adopted the recommendations of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants, and capitalized the costs of research and development acquired upon acquisition of another business.

2. ACCOUNTING POLICIES (continued)

Research and development costs capitalized are amortized on a straight-line basis over the lesser of the expected life of the related product or three years. Any unamortized portion of these costs related to specific projects will be written off in the year the project is deemed to have experienced a permanent impairment in value. Annually, the Company reviews the recoverability of capitalized research and development costs through an evaluation of the expected future discounted cash flows from commercialization of the associated products and consideration of current and future regulatory trends.

Research and development acquired does not necessarily reflect the present or future values of the projects, and the ultimate amount recoverable is dependent upon the successful development and commercialization of these products.

Revenue recognition

Revenue from product sales is recognized as the product is delivered.

Revenue from research contracts, which include government funding of joint research projects, is matched with the related costs and recognized as income as the costs are incurred.

Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. Gains or losses resulting from these translation adjustments are included in income.

Loss per common share

Loss per common share is calculated using the weighted average number of common shares outstanding during the year.

3. DISCONTINUED OPERATIONS

On February 11, 1994, the Company sold its interest in its 75% owned subsidiary HealthVISION Corporation, a supplier of computerized hospital information systems, thereby discontinuing its activities in this business. Accordingly, the financial statements of the Company have been reclassified to report separately the operating results of this discontinued operation.

The Company received net cash proceeds of $13,544 in exchange for its common and preferred shares in HealthVISION Corporation, and repayment of advances, resulting in a gain on disposal of $11,064. In conjunction with the sale, the Company has provided the representations and warranties to the purchaser disclosed in Note 10(e).

4. BUSINESS ACQUISITION

Effective October 25, 1995, the Company acquired 100% of the shares of BioUSA in exchange for 3,450,000 common shares of the Company. The fair value of the net assets acquired was determined to be $11,040 or $3.20 per share. Expenses related to the acquisition amounted to $109, and have been included as part of the cost of the acquisition.

The allocation of the purchase price is as follows:

Cash and short-term investments	$ 3,545
Other assets	146
Capital assets	991
Research and development acquired	6,986
Liabilities assumed	(519)
	$ 11,149

4. BUSINESS ACQUISITION (continued)

The acquisition cost of $11,149 is shown net of cash acquired of $3,545 in the Consolidated Statement of Changes in Financial Position.

Of the 3,450,000 shares, 3,238,360 were issued effective October 25, 1995. Of the 3,238,360 shares issued, 728,836 were placed in escrow and were to be released upon:

- BioUSA achieving a strategic alliance;
- certain products progressing to specific stages of commercialization; and
- the expiration of the holdback period for indemnification claims.

On December 30, 1996, the Company cancelled 450,000 shares held in escrow as a result of the failure of BioUSA to meet certain terms and conditions stipulated in the escrow agreement. The effect of the cancellation of these shares is reflected in these financial statements as a reduction in research and development acquired of $1,440 and a reduction in share capital of an equal amount. The remaining 278,836 shares held in escrow will be released pending the April 25, 1997 expiration of the holdback period for indemnification claims.

Under the terms of the BioUSA agreement, the Company set aside 211,640 common shares for issuance to certain BioUSA employees or consultants upon satisfaction of certain conditions, or these will revert to BioUSA's previous shareholders. In July, 1996, the Company issued 166,374 shares to BioUSA employees or consultants upon completion of certain conditions within the merger agreement. The balance of the shares will be issued to the original shareholders in 1997 in accordance with the agreement.

This acquisition was accounted for by the purchase method and the results of operations are included in the Company's Consolidated Financial Statements from the effective date of acquisition, October 25, 1995.

The results of the Company's operations on a pro forma basis, in 1995 and 1994 assuming the 100% interest of BioUSA had been acquired on January 1, 1994 are as follows:

	1995	1994
Revenue	$ 7,730	$ 7,046
Loss from continuing operations	(28,309)	(36,982)
Loss for the year	(28,309)	(25,918)
Loss per share from continuing operations	(0.94)	(1.44)
Loss per share	(0.94)	(1.01)

5. INVENTORIES

	1996	1995
Raw materials	$ 1,662	$ 656
Work in progress	566	659
Finished goods	113	264
	$ 2,341	$ 1,579

6. CAPITAL ASSETS

	1996			1995
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Scientific equipment	$ 7,911	$ 6,687	$ 1,224	$ 1,273
Computer software and equipment	2,055	1,851	204	255
Office equipment	2,535	2,137	398	608
Leasehold improvements	3,718	2,778	940	2,581
Manufacturing equipment	1,265	589	676	21
	$ 17,484	$ 14,042	$ 3,442	$ 4,738

7. LONG-TERM DEBT

	1996	1995
Government of Canada, Department of Western Economic Diversification, non-interest bearing loan repayable in quarterly instalments based on 5% of certain product sales, if any, beginning March 31, 1996 with the balance of the loan due March 31, 2000. The Company is restricted from paying dividends with certain specified exceptions, until the loan is repaid.	$ 627	$ 627
Less unamortized discount based on imputed interest rate of 10%	(156)	(199)
	$ 471	$ 428

8. CAPITAL STOCK

Authorized

- 12,500 non-cumulative, non-voting Class A preference shares, redeemable at $100 per share on an annual basis, to the extent possible, out of 20% of the net profits of the Company for each year
- Unlimited number of Class B preference shares issuable in series
- Unlimited number of common voting shares

The difference between the redemption value and the book value of the Class A preference shares will be expensed at the time the shares are redeemed.

The Class B preference shares may be issued solely by resolution of the Board of Directors. The Board of Directors has the authority, subject to limitations set out in the Canada Business Corporations Act, to fix the number of shares in each series and to determine the designation of rights, privileges, restrictions and conditions to be attached to each such shares.

8. **CAPITAL STOCK (continued)**

Issued

	1996		1995		1994	
	Shares	Amount	Shares	Amount	Shares	Amount
Class A preference shares						
Issued and outstanding, beginning and end of year	**12,500**	**$ 30**	12,500	$ 30	12,500	$ 30
Common voting shares						
Issued and outstanding, beginning of year	**33,365,061**	**$ 149,697**	22,522,537	$ 113,321	21,322,537	$ 106,136
Public issue (a)	**4,000,000**	**33,680**	7,392,514	25,504	–	–
Exercise of warrants (b)	**7,382,351**	**42,448**	10	–	600,000	2,385
Shares cancelled (c)	**(450,000)**	**(1,440)**	–	–	–	–
Exercise of options (d)	**19,000**	**76**	–	–	–	–
Business acquisition	**–**	**–**	3,450,000	10,872	600,000	4,800
Distribution of Bioalta shares	–	–	–	–	5,020,143	30,748
Cancelled	–	–	–	–	(5,020,143)	(30,748)
Issued and outstanding, end of year	**44,316,412**	**$ 224,461**	33,365,061	$ 149,697	22,522,537	$ 113,321

(a) In October, 1996, the Company completed a share offering resulting in the issuance of 4,000,000 common shares for gross proceeds of $36,000. Total costs of the offering amounted to $2,320. In June 1995, the Company completed a rights offering resulting in subscriptions for 7,392,514 units (consisting of one share and one warrant), and gross proceeds of $26,613. Total costs of the offering amounted to $1,109. Of the total units issued, Almiria Capital Corp. (Almiria), a significant shareholder, subscribed for 5,000,000 units. No value was ascribed to the warrants for financial statement purposes.

(b) During 1996, the Company issued 7,382,351 (1995 - 10) common shares at $5.75 per share, for cash consideration of $42,448 (1995 - nil) as a result of the exercise of warrants. From the total common shares issued, 5,000,000 common shares were issued to Almiria, which were subsequently distributed by Almiria to its shareholders on April 25, 1996. On December 5, 1996, the expiry date of the warrants, the remaining 10,153 warrants not exercised were cancelled by the Company.

(c) On December 30, 1996, the Company cancelled 450,000 common shares held in escrow at $3.20 per share for an aggregate value of $1,440 as a result of the acquisition of BioUSA (Note 4).

(d) During 1996, options on 19,000 common shares were exercised, pursuant to the Share Option Plan, at an average price of $4.02 per share.

8. **CAPITAL STOCK (continued)**

Director and employee share options

Details of director and employee share options are as follows:

	Number of Options	Option Price Range Per Share		
Outstanding, December 31, 1993	420,000	$ 7.625	–	$ 15.250
Issued – Share Option Plan	775,000	$ 6.125	–	$ 8.875
– Other	100,000		$ 6.875	
Exercised	–		–	
Cancelled	(40,000)	$ 8.875	–	$ 12.500
Outstanding, December 31, 1994	1,255,000	$ 6.125	–	$ 15.250
Issued – Share Option Plan	257,500	$ 3.850	–	$ 5.125
Exercised	–		–	
Cancelled	(430,000)	$ 3.850	–	$ 13.375
Outstanding, December 31, 1995	1,082,500	$ 3.850	–	$ 15.250
Issued – Share Option Plan	1,440,000	$ 5.000	–	$ 10.400
Exercised	(19,000)	$ 3.850	–	$ 6.750
Cancelled	(128,875)	$ 3.850	–	$ 12.500
Outstanding, December 31, 1996	**2,374,625**	**$ 3.850**	–	**$ 15.250**

Under the Share Option Plan options are authorized up to a maximum of 3,300,000 common shares and are granted at a minimum of the market value at the date preceding the date of the grant. Options issued under the plan are vested after one year from the date of the grant and are exercisable in equal amounts over the following four years.

At December 31, 1996 of the total options outstanding for 2,374,625 common shares, options for 595,250 common shares were exercisable. These options expire at various dates to 2004.

9. **INCOME TAX BENEFITS**

The significant differences between the accumulated deficit at December 31, 1996 and the losses carried forward for income tax purposes are as follows:

Deficit	$ 130,809
Permanent differences:	
Tax losses of subsidiary assumed on acquisition of control, net of equity pick-up	(8,274)
Post acquisition tax losses of subsidiary	7,505
Acquisitions of research and development not deductible for tax purposes	(14,423)
Other permanent differences	2,492
Timing differences	(4,207)
Losses carried forward	$ 113,902

9. INCOME TAX BENEFITS (continued)

The Company has non-capital losses of $113,337 available for application against taxable income of future years, which expire as follows:

1997	$ 940
1998	4,825
1999	1,686
2000	4,329
2001	12,172
2002	8,489
2003	4,863
	37,304
Non-capital losses relating to scientific research and development expenditures which carryforward indefinitely	76,033
	113,337
Net capital losses which carryforward indefinitely	565
	$ 113,902

The future tax benefits relating to the scientific expenditures and the losses carried forward have not been recognized in these financial statements.

The Company also has investment tax credits of approximately $14,908 (1995 - $12,887) which may be carried forward to apply against future years' federal income taxes. No recognition has been given in these financial statements to the potential tax savings which may result from these tax credits. Investment tax credits claimed in the future will reduce the non-capital loss available for carryforward. These credits expire as follows:

1997	$ 271
1998	588
1999	701
2000	905
2001	1,107
2002	2,095
2003	2,154
2004	2,802
2005	2,204
2006	2,081
	$ 14,908

10. CONTINGENCIES AND COMMITMENTS

(a) The Company is party to a jointly funded research contract with Industry, Science and Technology Canada (ISTC), with ownership of the resulting technology or products developed being retained by the Company. The ISTC funding received of $5,518 is repayable in annual instalments based on 5% of gross sales of certain products and technology beginning December 31, 1996.

(b) The Company is party to agreements with the National Research Council of Canada (NRC) to jointly fund a research project, with the Company controlling, through ownership or licensing, all of the technology arising out of the work. The Company has entered into a licensing agreement with the NRC for certain intellectual property arising out of the work and will pay a specified royalty on occurrence of commercialization of certain products or technologies until the funding received of $2,055 is repaid.

10. CONTINGENCIES AND COMMITMENTS (continued)

(c) The Company has participated in jointly funded research contracts in previous years. The Company controls (through license or ownership) the resulting technology or products and is committed to paying royalties on the sales of certain products on commercialization of the specific technology or products.

(d) In connection with the issuance of the Class A preference shares (Note 8), the Company has agreed to pay a royalty in the amount of 3% of the net proceeds of sale of any products sold by the Company employing technology acquired in exchange for the shares.

(e) In conjunction with the sale of its investment in HealthVISION Corporation effective February 11, 1994, the Company has provided specific and general representations and warranties to the purchaser. These representations expire at various dates to 1998. On January 31, 1996, the purchaser filed a statement of claim against the Company pursuant to these representations and warranties in the net amount of $1,447 and a claim for punitive damages in the amount of $1,000. The Company has filed a statement of defence and is of the opinion that there will be no material liability arising from these claims. Consequently, no provision for any liability in connection with this action has been made in these financial statements. Any liability payable by the Company arising from these claims will be recorded in the year in which the amount of the liability is determined.

(f) The Company, one of its subsidiaries and others have been named as co-defendants in a legal action. The Company has filed a statement of defense and is of the opinion that there will be no material liability arising from this legal action. Consequently, no provision for any liability in connection with this action has been made in these financial statements. Any liability payable by the Company arising from this claim will be recorded in the year in which the amount of the liability is determined.

(g) The Company is committed to annual minimum payments under lease agreements for premises and equipment over the next five years as follows:

1997	$ 1,248
1998	759
1999	700
2000	700
2001	700

(h) The Company is engaged in two supply contracts whereby it has a remaining obligation of $1,429 as of December 31, 1996.

The contracts expire on various dates between 1999 and 2003.

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are comprised of:

	1996	1995	1994
Research and development incurred:			
• corporate	$ 16,217	$ 15,842	$ 17,804
• related party share of partnership loss	–	–	500
Research and development acquired on purchase of partnership	–	–	4,800
	$ 16,217	$ 15,842	$ 23,104

12. NET CHANGE IN NON-CASH BALANCES RELATING TO CONTINUING OPERATIONS

	1996	1995	1994
Accounts receivable	$ (451)	$ (391)	$ 704
Inventories	(762)	(163)	(133)
Prepaid expenses	(87)	33	(126)
Accounts payable	573	(359)	(86)
Accrued liabilities	(55)	(667)	1,278
Corporate taxes	–	–	(13)
	$ (782)	$ (1,547)	$ 1,624

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash and short-term investments, accounts receivable, accounts payable and accrued liabilities

The carrying amounts in the consolidated balance sheets approximates fair value because of the limited term of these instruments.

Long-term debt, redeemable preference shares

The fair values of these instruments are based on the amount of expected future cash flows associated with each instrument discounted using an estimate of what the Company's current borrowing rate would be.

Fair values

The estimated fair values of the Company's financial instruments as at December 31 are as follows:

	1996		1995	
Assets (Liabilities)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and short-term investments	$94,402	$94,402	$36,791	$36,791
Accounts receivable	2,252	2,252	1,801	1,801
Accounts payable	(625)	(625)	(814)	(814)
Accrued liabilities	(2,920)	(2,920)	(2,213)	(2,213)
Long-term debt	(471)	(508)	(428)	(456)
Redeemable preference shares	(30)	(30)	(30)	(30)

14. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which differ in some respects from those used in the United States (US GAAP). The significant differences in accounting principles as they pertain to the accompanying financial statements are as follows:

Business Acquisition

Under US GAAP, the acquisition of BioUSA (Note 4) would be valued at the stock market price of the shares issued at the date of closing. Under Canadian GAAP, the acquisition is valued at the fair value of the net assets acquired at the time the agreement was negotiated. The effect of these differences is that under US GAAP the value of the shares issued would be higher by $3,622, increasing the research and development acquired by an equal amount. In addition, under US GAAP, the research and development acquired would be charged to expense on the date of acquisition, whereas under Canadian GAAP it must be capitalized.

14. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

As well, as a result of these differences, the cancellation of shares disclosed in Notes 4 and 8(c) would result in a reduction in share capital of $1,912 and a recovery of the 1995 write-down of research and development acquired of an equal amount.

Cash and Short-term Investments

Under US GAAP in the Statement of Changes in Financial Position, the definition of cash equivalents is restricted to highly liquid investments with original maturities of three months or less. Investments with original maturities of greater than three months do not qualify as cash equivalents for US GAAP.

The effect of the above differences on the Company's financial statements is set out below:

Consolidated Balance Sheets

	1996		1995	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Cash (and equivalents)	$ 94,402	$ 2,008	$ 36,791	$ 3,106
Short-term investments	–	92,394	–	33,685
Research and development acquired	2,829	–	6,598	–
Capital stock	224,461	227,611	149,697	153,319
Deficit	(130,809)	(136,788)	(108,987)	(119,207)
Total shareholders' equity	102,553	99,724	49,611	43,013

Consolidated Statements of Operations

	1996	1995	1994
Loss under Canadian GAAP:	$ (21,822)	$ (21,411)	$ (17,011)
Amortization of research and development acquired	2,329	388	–
Write-down of research and development acquired	–	(10,608)	–
Recovery of 1995 write-down of research and development acquired	1,912	–	–
Loss under US GAAP	$ (17,581)	$ (31,631)	$ (17,011)
Loss per common share			
Canadian GAAP	$ 0.57	$ 0.78	$ 0.77
US GAAP	$ 0.46	$ 1.15	$ 0.77

Consolidated Statements of Change in Financial Position

	1996	1995	1994
Under US GAAP:			
Cash (and equivalents) at beginning of year	$ 3,106	$ 10,967	$ 4,168
Cash used in operations	(54,436)	(33,897)	(4,332)
Cash (used in) provided by investing activities	(22,866)	(13,962)	8,746
Cash provided by financing activities	76,204	39,998	2,385
Cash (and equivalents) at end of year	$ 2,008	$ 3,106	$ 10,967

14. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

As well, the following additional disclosure is required under US GAAP:

	1996		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Cash and deposits with original maturities of three months or less	$ 2,008	$ 2,008	$ 3,106	$ 3,106
Held to maturity investments				
Maturity within one year:				
Deposits guaranteed by the Government of Canada	52,133	52,133	27,376	27,376
Debt issued or guaranteed by Provincial governments in Canada	24,357	24,357	3,427	3,433
Corporate debt securities	15,904	15,916	2,882	2,882
	92,394	92,406	33,685	33,691
	$ 94,402	$ 94,414	$ 36,791	$ 36,797

Held to maturity investments are carried at amortized cost. The unrealized gains and losses are not included in the Consolidated Statements of Operations as these gains and losses are unlikely to be realized due to the Company's intent to hold the underlying investments to maturity. During 1996 and 1995 the gross unrealized gains on held to maturity investments totalled $12 and $6 and there were no unrealized losses on held to maturity investments in either year. During 1996 and 1995 there were no realized gains or losses on held to maturity investments.

Stock-Based Compensation

For US GAAP purposes, the Company currently calculates the compensation cost for its Share Option Plan in compliance with the provisions of the United States Accounting Principles Board (APB) Opinion No. 24 which allows no compensation cost to be recorded provided that the exercise price of the options granted is equal to the fair market value of the Company's stock as at the date of the grant.

The Company has determined that the effect of using the fair value method of measurement as described in the Statement of Accounting Standard No. 123 would not be material.

15. SEGMENTED INFORMATION

The Company operates entirely in the biotechnology industry and does not have significant foreign operations. The Company sold to export markets outside of Canada as follows:

	United States	Other
1996	$ 3,337	$ 1,560
1995	1,514	1,438
1994	1,174	1,355

16. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Corporate Information

Board of Directors

Eric E. Baker [2]
President, Miralta Capital Inc.
Chairman of the Board, Biomira Inc.

S. Robert Blair, CC
Chairman Emeritus, NOVA Corporation of Alberta

B. Michael Longenecker, PhD
Professor Emeritus, Immunology, University of Alberta
Senior Vice President, Research & Development, Biomira Inc.

Peter H. McNerney
General Partner of The Coral Group

Alex McPherson, MD, PhD [2]
Professor Emeritus, Faculty of Medicine, University of Alberta
President & Chief Executive Officer, Biomira Inc.

Robert Mee [1][3]
Vice President, Miralta Capital Inc.

Michael C. Welsh, QC [1][2][3]
Partner, Welsh & Company (Barristers & Solicitors)

Paul Wacko [1][2][3]
President, Inland Group

[1] Member of Audit Committee
[2] Member of Executive Compensation Committee
[3] Member of Corporate Governance Committee

Corporate Officers

Alex McPherson, MD, PhD
President & Chief Executive Officer

B. Michael Longenecker, PhD
Senior Vice President, Research & Development

Robert D. Aubrey
Vice President, Marketing & Sales

Grant D. MacLean, MB, ChB, FRACP
Vice President, Clinical & Regulatory Affairs

C. William Cherry
Vice President, Operations & Quality

Edward A. Taylor, CGA
Vice President, Finance & Administration
Chief Financial Officer & Corporate Secretary

Auditors

Deloitte & Touche
2000 Manulife Place
10180-101st Street
Edmonton, Alberta
T5J 4E4

Share Registrar and Transfer Agents

Montreal Trust Company of Canada
6th Floor, Western Gas Tower
530-8th Avenue SW
Calgary, Alberta
T2P 3S8

United Missouri Trust Company
1 Battery Park Plaza
8th Floor
New York, New York
10004

Stock Listings

The Company's common shares are traded on the Toronto Stock Exchange and the Montreal Exchange under the trading symbol BRA and on the Nasdaq National Market systems under the symbol BIOMF.

Managing Executive (L to R)
Robert Aubrey, Grant MacLean, William Cherry, Alex McPherson, Edward Taylor, Michael Longenecker, Irwin Griffith PhD, Senior Director, Projects and Portfolio Management

Missing: Mircea Popescu MD, PhD, Vice President, Research & Development, Biomira USA

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